Forest Industry Lecture No. 37

Beyond 2000:

The Challenges for Canada's Pulp and Paper Industry

Lise Lachapelle

President and Chief Executive Officer

Canadian Pulp and Paper Association

Montreal, Quebec

Forest Industry Lecturer, Forest Industry Lecture Series

Department of Renewable Resources

Faculty of Agriculture, Forestry and Home Economics

University of Alberta

Edmonton, Alberta

Canada T6G 2H1

THE FOREST INDUSTRY LECTURE SERIES

The forest industry in western Canada cooperates with Alberta Environmental Protection Agency to provide funds to sponsor noteworthy speakers. This initiative significantly enriches the Renewable Resources Program in the Faculty of Agriculture, Forestry, and Home Economics at the University of Alberta.

The Forest Industry Lecture Series was started during the 1976-77 University term as a seminar course. The late Desmond I. Crossley and Maxwell T. MacLaggan presented the first series of lecturers. The contributions of these two noted Canadian foresters is greatly appreciated.

Subsequent speakers in the series have visited for periods of up to a week, with all visits highlighted by a major public address. Visitors have come from throughout North America, Europe, Africa and Asia. Their talks have dealt with a wide range of topics, such as: forest ecology, forest science, silviculture, wildlife management, forest management, ecosystem management, lumber and paper sales, labor, international trade, forest economics and forestry-related social issues. Speakers have been scientists, industry and business leaders, senior government officials, academics and forestry alumni. A complete list of the speakers and their topics is presented at the end of this pamphlet. Copies of most presentations are available from our Department Office upon request.

This paper contains the presentation of Lise Lachapelle, President and Chief Executive Officer of the Canadian Pulp and Paper Association, Montreal, Quebec.

SPONSORS

We take this opportunity to thank again the sponsors of the 1996 program. We greatly appreciate their willing and sustained support, through which we have been able to provide the latest concepts and practices of forest management from around the world to the foresters and forestry students within Alberta. Also because of this Series, we have been able to showcase the excellent forest management practices in Alberta to foresters elsewhere. We are of course dedicated to the goal of understanding and teaching people about forestry in Alberta and elsewhere. This program allows us to do just that, and for that we are grateful.

We identify with pleasure the following companies and organizations, who sponsored this lecture. They are:

Ainsworth Lumber Co. Ltd. - Grande Prairie
Alberta Alumni Foresters' Association - Edmonton
Alberta Environmental Protection- Land and Forest Services - Edmonton
Alberta Forest Products Association - Edmonton
Alberta Newsprint Co. - Whitecourt
Alberta Pacific Forest Industries Ltd. - Edmonton
Alberta Registered Professional Foresters' Association - Edmonton
Beck Consulting - Edmonton
Blue Ridge Lumber (1981) Ltd. - Whitecourt
Canadian Forest Products Ltd. - Grande Prairie
Canadian Forest Service - Edmonton
CIF – Rocky Mountain Section - Edmonton
Daishowa-Marubeni International Ltd. - Peace River
W R Dempster & Associates – Edmonton
Envi Resource Consulting Ltd. - Calgary
Ezra Consulting - Athabasca
The Forestry Corp - Edmonton
KPMG-Peat Marwick Thorne - Edmonton
Pearson Timberline Forestry Consultants - Edmonton
Silvacom Forestry Consultants - Edmonton

H.A. Simons Reid Collins - Edmonton
Tall Timber Forestry Services Co. Ltd. - Whitecourt
Weldwood of Canada Limited - Hinton Division
Weyerhaeuser Canada Ltd. - Alberta Division
Weyerhaeuser Canada Ltd. - Grande Prairie Division
Weyerhaeuser Canada Ltd. - Saskatchewan Division
Xi Sigma Pi - Edmonton

	**Lisa Lachapelle**

A native of Montreal, Lise Lachapelle holds a Bachelor's degree in Business Administration from the University of Montreal (HEC). She also studied at the University of Western Ontario and at the Harvard Business School.

Ms. Lachapelle has held a number of important federal positions. She served as a federal Trade Commissioner in Paris, where she was responsible for aspects of economic development and international trade. While at the Treasury Board in Ottawa, she held the Defense portfolio. After 20 years in the Canadian public service, Ms. Lachapelle had attained the level of Assistant Deputy Minister in what is now Industry Canada.

Upon leaving public service, Ms. Lachapelle became Senior Vice-President of the Montreal Stock Exchange, a position she held for two years. In 1990, she joined Strategico Inc., a public policy consulting firm that provided strategic advice to such clients as: Air Canada, GTE, CAE, and Alcan. In 1993, she became President of Strategico Inc.

Ms. Lachapelle has served as Chairman of the Board of the National Institute for Scientific Research (INRS), a Quebec graduate teaching and research organization, and as President of the Quebec Technology Development Fund, which is a $380 million fund for supporting R&D carried out by companies in collaboration with research centers and universities. Ms. Lachapelle was a member of the Board of Director of Abitibi Price Inc. during the years 1993 to 1994. She resigned in 1994 when she joined the Canadian Pulp and Paper Association. She is currently a member of the Board of Directors of L'Industrielle Alliance Inc., Quebec's second largest life insurance company and Russel Metals Inc., the pre-eminent processor and distributor of metals in North America. She also serves on the National Round Table on the Environment and the Economy, the National Council on Statistics, the Forest Sector Advisory Council and is Vice-Chairman of the Pulp and Paper Committee of the United Nations' Food and Agriculture Organization (FAO).

Ms. Lachapelle has been President and CEO of the Canadian Pulp and Paper Association (CPPA) since September 1994. The CPPA is one of the largest trade and industrial associations in Canada. This organization represents 60 independent members with combined revenues of some $40 billion annually.

Today, I will be talking to you about Canada's pulp and paper industry as it approaches the year 2000. Since this audience is already acquainted with that industry, I also want to leave some time for your questions and comments. I'm particularly interested in hearing what people have to say about the pulp and paper industry. The questions you have about us – not that I am presumptuous enough to think that I have all the answers – but rather, maybe there are issues that should be on our "radar screen" that are not already – so it would be extremely useful to know what you are thinking. So I hope all of you will feel free to ask any questions during or after my talk that may be of interest to you. Also, you should know that I will not be delivering a long lecture. To paraphrase a popular television show, "This hour will have 22 minutes."

My starting point is a Vision statement, which I would like to share with you. Here it is: "Our vision, as we emerge from this and enter the next century, is to be indisputably recognized, nationally and internationally, as one of Canada's finest industries." Some of you may recognize this statement because I copied it from the home page of the University of Alberta's website. It is in fact, the vision statement for your university; I just changed the last word. My point is that the challenges facing any company, institution, industry, university or student, for that matter are pretty much the same as we head into the 21st century. We all need to be indisputably recognized or said another way, we need to be competitive in the world marketplace. To accomplish this goal, we al need to aim for high quality results. Specifically, we all need to invest in technology and training to succeed. And, further, we will all have to do more with fewer resources and less money. In that sense the pulp and paper industry is no different from the University of Alberta and I suspect that many of our strategies for the future would also be similar. Making such a statement, I would challenge, is kids work - doing it is where you separate the weak from the strong.

Before I look ahead, let me sketch for you a brief profile of this industry.

In Canada during the year 1995, the production of all pulp and paper products reached 30 million tonnes. More than four fifths (80%) of this production was exported, and our number one customer was and remains the United States. In fact the United States has historically accounted for 60% of our exports. The remainder of Canada's pulp and paper is consumed by Europe (15%), Asia (18%), Latin America and Africa (7% in total). Japan alone buys the equivalent of half of what we sell in Europe. (It might be interesting to know that what is true for Canada as a whole, also true for Alberta producers. Japan is also one of Alberta's largest export markets for forest products (after the United States) with shipments of over $300 million in 1994. South Korea, Taiwan and Indonesia also rank among the major Asian destinations for Alberta's forest products exports.)

But back to the Canadian industry as a whole.

In terms of profitability, the industry has cycled through a successful year of profitability in 1995 with earnings of $4 billion. However, this history does not seem to be repeating itself in 1996. Currently, product inventories are high and prices low - this is the exact opposite of a paper producer's dream.

However, the entire forestry sector employs almost a million Canadians and the good news is that direct and indirect employment in the industry rose by 4,300 jobs in 1995.

Consolidation is another factor affecting the industry. Recently, we have seen Kimberly Clarke absorb Scott Paper Company; while Stone Ltd. Purchased Rainey River and Donohue acquired QUNO and yet even though some of our companies are becoming larger, they are still small compared to our U.S. and European competitors.

So where are we headed in the future?

Fortunately, in the pulp and paper industry, you don't have to call a psychic hotline to get a prediction. The newspapers are full of dire warnings. Over the year we have seen a wide assortment of headlines like:

"Paper Industry's Two-Year Boom is Beginning to Fold"

"Paper dinosaurs refuse to fold."

"Newsprint rise will continue."

"Year ahead promises to be good for those in the newsprint business."

"Pulp prices drop after two-year upward ride."

But this is all about price fluctuations and as many CEO's of my member companies are keen to say: "Yes, we know the prices are going to rise and fall, that is the very essence of a cyclical industry – if only the analysts could just concentrate on the *when* instead of the *how much* – then they would really earn their living!" Prices are no doubt the most volatile and at the same time the most challenging component of our future analysis equation. Just imagine for a moment asking a CEO of Bell Laboratories or General Motors for that matter, to manage their business with prices doubling or being cut in half over the 2-3 year period. In fact, I did ask this question of two CEO's, one was an executive of a large utility company and the other managed a large automobile company. It was interesting to note their look of disbelief. Neither had imagined that such a challenge existed, today, in a business sector.

So how does one plan in an industry like this? Perhaps, <u>prudently</u> would best describe it.

In the past, the industry shot itself repeatedly in the foot by accentuating the cycle. Let me explain – when demand was high, investment in new production was high – and this added capacity arrived just as demand began to fall. As a result, this new excess capacity drove the prices down, along with profit margins and the ability for companies to pay down their newly acquired debt. Hopefully, this time around, things will be different. Currently, we are working our way through an inventory correction. We anticipate a strengthening in demand and there is no new capacity planned in Canada. Companies are using the profits earned to bring health back to their balance sheet for the future.

What then is the future of this industry?

The pulp and paper industry is certainly a global industry, and Canada remains the largest single exporter of forest products in the world. This is an enviable position for us to be in. However, the question is: "How long can we retrain that position of leadership, and the economic benefits we derive from it?" One thing is for sure we are going to have to work hard if we want to remain in that position.

Whatever the marketplace holds for pulp and paper products beyond the year 2000, one thing is certain: there will be no shortage of consumers. The world's population increased by 100 million people in 1995, the largest annual increase ever. We are now close to 6 billion people in the world and it is expected that the global population will stabilize at around 8 billion between now and the year 2015. However, depending on birth rates and population control, the actual population could increase to 14 billion. So there is good reason to expect there will be no shortage of potential consumers, although the demographics suggest the largest population increases are expected in countries like Indonesia, China, and India where we now find almost half of the world's population. Therefore, there is little doubt that there will be enough potential consumers but what we will need are actual customers, and we know that economic development as well as democracy are the levers that turns consumers into customers of pulp and paper products.

Yes, the strength of our markets depend on democracy. In South East Asia where we see tremendous growth in population as compared to Europe and the United States, sales will be slow or weak in the absence of democracy. Democracy brings with it the elements that transforms paper from a luxury into a necessity. Paper provides people with access to information (i.e. a free press, freedom of information, freedom of expression). Similarly, a rise in the standard of living leads to or is a result of an increased literacy, education, which results in the increase use of such products as sanitary papers and industrial and agricultural production, which in turn requires packaging, training manuals and so on. So it is democracy that will span economic development, which is a prerequisite for a healthy and prosperous future in pulp and paper.

Next, we have seen a change in customer preference for pulp and paper products. Specifically, newsprint customers are demanding thinner and narrower paper and lighter weight grades. These papers provide more printing surface per tonne than conventional newsprint. Also, there has been an increase in the use of specialized and higher grade papers for computer printing for use in fax machines and for printing in general. High grade paper allows for high quality printed products. This change in demand has prompted Canadian paper manufactures to double its capacity for making value-added printing and writing papers over the last decade.

The other major emerging trend of course is the information highway. Its impact on paper has been widely debated but ultimately it brings to mind that quote attributed to Mark Twain when he said: “Rumors of my death are greatly exaggerated.” I go back to the vision statement of the University of Alberta, which I saw on the Internet – but which I printed because I wanted to keep it as a reference. I used paper even though the information was readily available on the computer screen. Without a doubt, we are seeing a lot more information being exchanged electronically. There is also more electronic selling, data and record keeping, and electronic publishing but at the same time a “hard copy” is never very far away. While surfing the net, you may find an article that you may want to read later on the bus so you’ll probably print it! Order the latest physical training gadget on TV and you have just used an order form, packaging, sales slip, Visa receipt and so on. All of which are paper. Even Bill Gates, who some of you may know, does not allow paper in his boardroom, has seen fit to print a book in hard copy rather than just having it available on the “net” or disk. As an aside, the Japanese who, by the way, are the second largest producers of paper in the world, jokingly refer to the “*Windows how-to*” books as some of the best-sellers with the best distribution network in the world. This is another unforeseen use of paper.

While we are discussing the information highway, let me spend a few more minutes on the impact of this growth area. Most studies look at penetration – depth, speed, but overlook factors such as aging of the population. Did you know, one person turns 50 every 7 ½ seconds in the United States. These older folks will use more paper as their leisure time increases.

So that was a quick, oversimplified look at the demand side of the equation. The side that is driven by the customer, but there is also demand for flexibility, diversification, concern for the environment in addition to the best quality pulp or paper for the best price. Our next concern must be *“Can the Canadian industry deliver on these demands?” In other words, what does the supply side of the equation look like if you are a Canadian producer?”* Here we have to look at three major variables: (1) fibre supply, (2) competitiveness, and (3) environmental accountability.

Fibre Supply:

We know that the fibre supply will continue to be a challenge for the industry but the ever increasing efficiency in fibre utilization, specifically the industries efforts at recycling wood fibre will help us extend the amount of fibre available. Also contributing to our success are the new reforestation techniques. New silvicultural advances in the areas of genetic improvements, intensive site management and protection will enable us to maintain supply without stressing the environment that produces it. However, as an economist, I know better than to talk about the aspects of forestry to experts like yourselves – but you know the challenges I am talking about and the successes as we have achieved.

Competitiveness:

In the area of competitiveness, we still have some work to do at the level of international competitiveness. At the same time, you only have to visit some of the mills right here in Alberta to see the technological advances that this industry has accomplished. However, did you know, that between 1989 and 1995, and this was at a time when our industry was registering large losses, we in Canada invested nearly $20 billion in modernization and upgrading of which over $6 billion was spent on pollution reduction technologies and systems. This investment helped us remain competitive. In Alberta, the pulp and paper sector consists of nine mills employing 3,600 people. Many of your mills are new while others have been recently upgraded, which makes your mills some of the most competitive mills in the world in terms of efficiency.

At the same time our competitiveness also depends on our ability to sell in the global marketplace. That's equally important whether it applies to pulp or newsprint or value added products. Tariffs are the last gasp facing free and fair trade. Canada's paper industry is and always will be export driven. As I mentioned earlier, four out of every five tonnes of pulp and paper we produce are exported. That's why we are bullish on free trade, especially in North America, and that is why we support the efforts of the World Trade Organization. By the way, the forest products industry in Canada is, by far, the largest contributor to this country's balance of trade. Last year our sector, alone, accounted for $25 billion.

Canada has won an agreement from the European Union (EU) for the early phase out of tariffs on many Canadian paper grades. The EU tariff on many non-newsprint grades will be phased out by 2000, the tariff on newsprint by 2002. (That's one good reason why the title of this speech is "Beyond 2000")

Environmental Accountability:

In terms of environmental accountability, I believe this in an area where there has never been more people working harder to make positive changes. Today the industry is practicing more recycling, more conservation, more forest regeneration and more careful harvesting than ever before. In addition, the pulp and paper producers in 1996 are actually welcoming multi-stakeholder processes and tough voluntary targets for continuous improvement in sustainable forestry and mill operations. The most recent indicator of this trend is here and now as pulp and paper companies prepare to meet the challenge of an objective and verifiable sustainable forest management certification program prepared by the Canadian Standards Association (CSA).

As one of the world's largest exporter of pulp and paper products, we have traditionally competed on the basis of price, quality and service. But in the future, we know our environmental record will be evaluated and successful competitors will be judged accordingly. The advent of CSA standards will add another important benchmark. The CSA, Canada's pre-eminent standards writing body, has been working on the national processing standards since June 1994. They have brought together the expertise of wood product manufacturers, industry forest managers, private woodlot owners, academia, research organizations, environmental groups, general interest groups and governments. Non-Government Organizations (NGO's) and citizens across Canada were also given the opportunity to participate in the process. Currently, there are draft standards and numerous pulp and paper companies across Canada have already started to size up what needs to be done to measure their performance against the draft standard. Initial signs confirm that CSA Sustainable Forest Management Certification will not be easy to obtain, but Canadian companies are strongly motivated to reach this level of performance.

The CSA standards cover six criteria (in the areas of environmental, economic and social values) and more than 80 indicators if you count social indicators associated with sustainable forest management from conservation of biological diversity to maintenance and enhancement of forest ecosystem condition to conservation of water and soil. Independent third party audits will be used to verify compliance with legislation and regulations. As a major international supplier of forest products, the Canadian industry is extremely sensitive to international customer demands for pulp and paper products that come from sustainably managed forests. And as citizens of this country, pulp and paper employees also share a common and sincere desire for good forest management. For customers, consumers and citizens alike, CSA certification will provide an assurance that sound sustainable forestry management is being practiced to produce forest products. However, at the same time, the CSA initiative provides a practical tool for customers, government and indeed, all interested parties, to assess for themselves the ability of Canadian pulp and paper companies to measure up to tough standards for sustainable forestry practices. I believe it is this blend of sensible resource management coupled with aggressive market development and high quality products that will ensure the future of Canada's pulp and paper industry.

Without a doubt, the pulp and paper sector has made great strides based on the criteria recognized by the International Standards Organization (ISO) and Canadian Standards Association (CSA) for developme3nt, environmental improvements and technology investment. There's no question that initiatives such as ISO registration are helping Canada's pulp and paper companies become more competitive on the world stage. Our ability to meet or exceed these standards shows our commitment to environmental accountability.

In closing, as I said at the outset, the recipe for our success in the future – whether you're talking about a pulp and paper company or one of Canada's finest universities – is remarkably similar.

We need to be competitive.

We need to invest in technology and training.

We need to aim for high quality results.

With that game plan, I certainly believe we can – let me quote again – **"to emerge from this and enter the next century, indisputably recognized, nationally and internationally, as one of Canada's finest universities and industries."**

Thank you.

FOREST INDUSTRY LECTURE SERIES

1. Industrial Forestry in a Changing Canada, by C. Ross Silversides. 17 November, 1977.

2. The Role of Integrated Forest Companies in Western Canada, by W. Gerald Burch. 15 March, 1978.

3. Premises of Energy Forestry in Sweden, by Gustaf Siren. 7 March, 1979.

4. Agro-forestry - Prospects and Problems, by K.F.S. King. 27 September, 1979.

5. The Role of the Federal Government in Forestry, by F.L.C. Reed. 5 March, 1980.

6. Breeding for Variable Environments, by Gene Namkoong. 14 August, 1980.

7. Federal Forestry Commitments in the 1980's, by Roger Simmons. 5 December, 1980.

8. Space, Time, and Perspectives in Forestry, by Kenneth A. Armson. 26 November, 1981.

9. Labour's Role in Forest Resource Management, by John J. (lack) Munro. 25 March, 1982.

10. Stocking Control and Its Effect on Yields, by Dr. Peder Braathe. 4 November, 1982.

11. Timber Management Scheduling on Public Lands - Why the Future is Not Like the Past. Dr. K.N. Johnson.

March 29, 1983. Talk only, paper not available.

12. The Canadian Schools of Forestry - Retrospect and Prospect. Dr. V.J. Nordin. January 19, 1984.

13. Increasing the Land Base and Yield Through Drainage. Dr. J. Paivanen. March 15, 1984.

14. Forestry Productivity Limits: Real, Imagined and Potential. Dr. Conor Boyd. January 24, 1985.

15. Air Pollution and Forest Resources - The Nature of the Threat. Dr. Peter Rennie. March 28, 1985. Paper not yet available.

16. Land Use Planning for Forest Harvesting and Environmental Concerns. John A. Marlow. November 28, 1985.

17. Northern Forest Management for Wildlife. Gordon W. Gullion. October 16, 1986.

18. From NSR to Intensive Forest Management. Hugo Von Sydow. 12 March 1987.

19. People - Managing Trees: Understanding Today's Environment for Natural Resource Management. Mary Jo Lavin. 19 November 1987.

20. The Social Renewability of Forestry. Harold R. Walt. 30 March 1988.

21. Forest Policies: Public Duty and Private Action. Adam H. Zimmerman. 1 November 1988.

22. New Dimensions in the Development of Forest Policy: A View From the Trenches. T.M. (Mike) Apsey. 16 March 1989.

23. Vision and Reality - The View From Sweden. Bjorn Hagglund. 17 October 1989.

24. The Contribution of Old Growth to the New Forestry. Jerry F. Franklin. 4 April 1990.

25. Developing Silvicultural Alternatives for the Boreal Forests: An Alaskan Perspective on Regeneration of White spruce. John Zasada. 7 November 1990.

26. Forestry After the End of Nature. Clark S. Binkley. 20 March 1991.

27. Sustainable Forestry: Can We Use and Sustain Our Forests? J.P. Kimmins. 21 November 1991.

28. Environmental Regulations and the Implications for Canadian Export. Don G. Roberts. 18 March 1992.

29. Forest Health Issues: An Entomologist's Perspective. David L. Wood. 18 November 1992.

30. Unconventional Wisdom: Reflections on Polarization, Politics, Prosperity and the Future of the Canadian Forest Industry. David L. McInnes. 9 March 1993.

31. The Canadian Forest Products Industry: Competitive Challenges in the 1990's. Patricia M. Mohr. 10 November 1993.

32. The Deforestation of Siberia: Economic and Environmental Problems in Russian

Forest Management. Lisa A. Tracy. 25 April 1994.

33. Alumni Presentations: Challenges to the Forest Profession: Past, Present and the Future".

Part I. Forestry and the Failure of Technocracy. Lois Dellert - Class of 1979.

Part II: Biological Truth and the Court of Public Opinion. Glen Dunsworth - Class of 1975.

Part III: Why My Next Forestry Work Associates Will be Less Likely to be Foresters. Barry Northey - Class of 1979.

Part IV. Educating Forest Resources Managers: Challenges and Opportunities. Val Lemay - Class of 1981.

34. Global Fibre Resources Situation: The Challenges for the 1990's.
James A. McNutt. 28 February 1995.

35. Life Cycle Assessment Studies in the Timber Industry: Pros and Cons.
Arno Fruhwald. 2 November 1995.

36. Accommodating Wildlife in Forest Management Plans and Practices, Is It Possible.
Max Peterson. 7 March 1996.

37. Beyond 2000: The Challenges of the Pulp and Paper Industry.
Lise Lachapelle, 10 October 1996.